

WHAT IS A LOAN/MORTGAGE BROKER?

A loan/mortgage broker acts as a third party to secure a loan for the consumer. When you engage a broker there will be an extra fee for his services. Brokers typically get paid in two ways: the fees, or points, and an often-overlooked rebate that brokers receive from the lender.

This back-door rebate is paid when brokers successfully sell you a loan with an above-average interest rate. Other times, rebates are paid for including a prepayment penalty clause or some other lender-friendly feature.

For example, if a broker can sell you a fixed-rate loan at 8.1 percent when the average rate is 7.8 percent, the broker might earn an additional 1 percent in fees. The rebate is paid by the lender, but the costs are passed to you in the form of a higher rate.

Brokers are required to disclose the rebate before you sign the paperwork, but it doesn't have to be a part of the good-faith estimate of loan costs you receive upon application. In the final disclosure form, it may be listed ambiguously as a "yield spread premium."

There's nothing improper about the rebate, as long as you know about it. Remember to ask. Take the rebate into account when negotiating with the broker over his fee.

If you are paying the broker a 2 percent loan fee up front, and the lender is paying him another 1 percent rebate, that's a 3 percent fee, which is pretty high. Ask the broker to reduce your interest rate or fees.

HOW MUCH SHOULD A BROKER GET?

The size of the fee varies based on the loan size, but 1 percent to 2 percent of the loan amount is usually enough. Take into account how complicated your loan is. If you barely qualify and the loan officer has to scramble for approval, a higher fee may be appropriate. For a no-hassle refinance, you should expect to pay less. Generally speaking, if a broker is pocketing more than 2 percent in profits (including the rebate, but not "hard costs" like appraisal, credit, title, etc), you deserve an explanation.

BROKER SCAMS

Consumers looking for a loan should avoid the "advance fee" loan broker sometimes listed in the classified ads of newspapers and free publications. Collecting brokerage fees in advance of making the loan is illegal in Indiana. So, right off there is a clue that the broker is not on the level. Much more important, we do not know of anyone who has ever gotten a loan through one of those operators.

The scam works basically like this: The "broker" runs an ad offering consolidation loans and include a toll-free telephone number. The prospective borrower calls and the scam artist takes some credit information then promises to call back. After a delay of perhaps an hour, the borrower gets a call back full of good news: the loan has been approved, usually at a very favorable rate and with a monthly payment that the borrower can handle.

The "broker" then says he needs a certain amount of money - ranging from a few hundred to almost two thousand dollars - as the brokerage fee before the loan can be disbursed.

The money must be sent as a cashier's check or money order and by Federal Express or United Parcel Service. Once the victim has sent the money, there is no loan and no further contact.

The problem lies in evasiveness, skillful fraud, and even an international border. Most of the companies are from Canada, presumably so there will be little or no involvement of law enforcement from the United States. People who send money find that the company's telephone is no longer in service just a few days later and there is not a government agency to help. Every regulator and law enforcement official has said *"We simply can't catch up with them."*

Caution and common sense are the best defenses against being victimized. First, if you are creditworthy, there are hundreds of lenders in this State who are happy to service you. If you are not creditworthy, sending your money hundreds of miles and to a foreign country isn't going to help. Second, the advance fee and the Canadian address are dead giveaways that something isn't right.

WHERE TO GET HELP

These Canadian loan scams are being combated by Phone Busters, a national task force against telemarketing fraud coordinated by the Ontario Provincial Police. Phone Busters can be reached at P. O. Box 686, North Bay, Ontario, Canada P1B8J8. Telephone: 888-495-8501 Fax: 705-494-4008

Call the Indiana Secretary of State, 317-282-6684 or 800-223-8791 for problems with Indiana loan brokers.



The Indiana Department of Financial Institutions,
Division of Consumer Credit has many other credit
related brochures available, such as:

Answers to Credit Problems
Applying for Credit
At Home Shopping Rights
Bankruptcy Facts
Buried in Debt
Car Financing Scams
Charge Card Fraud
Choosing A Credit Card
Co-Signing
Credit and Divorce
Credit and Older Consumers
Deep in Debt?
Equal Credit Opportunity
Fair Credit Reporting
Fair Debt Collection
Gold Cards
Hang up on Fraud
High Rate Mortgages
Home Equity Credit Lines
How to Avoid Bankruptcy
Indiana Uniform Consumer Credit Code
Look Before you Lease
Mortgage Loans
Repossession
Reverse Mortgage Loans
Rule of 78s – What is it?
Scoring for Credit
Shopping for Credit
Using Credit Cards
Variable Rate Credit
What is a Budget?
What is the DFI?

Call our toll-free number or write to the address on the
cover for a copy of any of the brochures listed or for
further consumer credit information. You can also
access information at our web site on the Internet:
<http://www.dfi.state.in.us>, then click on Consumer
Credit.



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